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SUBJECT: KAZAKHSTAN: DONORS SEEK TO IMPROVE COORDINATION

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11. (SBU) SUMMARY: On February 27, several bilateral and multilateral donors met in Astana to discuss ways to improve coordination of assistance and resolve common issues and obstacles. Participants discussed information sharing; exemptions for Value Added Tax (VAT) on goods and services received under grants; the economic crisis and its impact on Kazakhstan and the broader Central Asian region; and facilitating focused, thematic discussions in future coordination meetings. END SUMMARY.

THE FITS AND STARTS OF DONOR COORDINATION

12. (SBU) Donor coordination in Kazakhstan has waned in recent years with donors split between the business and cultural center of the country, Almaty, and the capital 800 miles to the north, Astana. However, the need for coordination remains since, despite rapid growth (which has recently stagnated as a result of the global financial crisis), Kazakhstan still faces serious development challenges in health, education, economic development, as well as in the democracy sector. Early last year, USAID initiated the resumption of donor coordination meetings, an effort welcomed by the donor community of Kazakhstan.

13. (SBU) This third Donor Coordination meeting, the first held in Astana, was organized by the Organization for Security and Cooperation in Europe (OSCE) and chaired by OSCE Ambassador Alexandre Keltchewsky. Other participants, in addition to USAID and the OSCE, included the European Union, the United Nations Development Program (UNDP), UNICEF, the UN Office of Drug Control (UNODC), the Turkish International Development Agency (TICO), the Japanese International Development Organization (JICO), and the World Bank. Bilateral participants included representatives from Great Britain, Canada, Poland, and the Czech Republic.

SOMETHING MORE THAN JUST TALK?

14. (SBU) The meeting on February 27 was designed to focus on several broader topics of general interest for the entire gathering. The

first topic discussed was the expected outcome of donor coordination meetings. The UNDP representative pushed for the creation of an information portal on a web site that each donor could contribute to and update. This database could include information on the programs and activities that each donor is working on in Kazakhstan as well as in the broader region. However, USAID representatives stated that such websites or databases are difficult to maintain and often become outdated and serve little usefulness. Moreover, when the Regional USAID Mission organized the first such donor coordination meeting in early 2008 (after a several-year interruption), the expressed purpose was to create a forum for discussion of common challenges where donors could come together and, when necessary, speak with one common voice with the Government of Kazakhstan. No final agreement on information sharing was concluded, other than a commitment to continued close cooperation among donors at the working level on all such activities. Further, it was agreed that future coordination meetings can focus on one thematic discussion at a time.

BABY CAMEL TAKES FIRST STEPS

15. (SBU) A short presentation by the World Bank representative followed on the activities of the Bota Foundation, established and supported through \$84 million of Kazakhstani funds frozen in Swiss bank accounts. The previous U.S. Ambassador to Kazakhstan sits on the Board of Directors of Bota along with several other distinguished international and Kazakhstani representatives. It was reported that after a competitive process, the International Research and Exchanges Board (IREX) had been selected as the program manager for the activities to be implemented by the Foundation. The activities will focus on providing financial support to Kazakhstan's most vulnerable families and on funding educational opportunities for under-privileged children. Project implementation is expected to commence this summer.

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TAX RELIEF ANYONE?

16. (SBU) The USAID Regional Legal Advisor Office for Central Asia advised donors regarding the tax treatment of grants under the new Kazakhstani tax code. The recent revisions to Kazakhstan's tax code provide a mechanism by which organizations can receive Value Added Tax (VAT) refunds for purchases made with grant funds, but also restrict the meaning of "grants" such that USAID implementing organizations are not eligible. Many donors directly implement projects and receive tax exemptions through mechanisms other than local law or do not object to paying VAT. U.S. law mandates that U.S. assistance programs do not pay certain taxes imposed by foreign governments. Discussions with the Government of Kazakhstan on implementing the bilateral framework agreement of 1992 regarding humanitarian and technical assistance continue.

LET'S STAY OUT OF INTERNAL POLITICS

17. (SBU) The OSCE Ambassador raised concerns about the sensitive issue of working with and cooperating with individual political parties. He stated that he is often invited to events of one particular political party and he was concerned about the appearance that such participation may have. The UNDP Resident Representative, Haoliang Xu, stated that he did not believe it is appropriate to accept invitations to events organized by one political party. Diplomatic participation in events involving political parties should include parties from across the political spectrum. He maintained that while the issue needs to be dealt with delicately, an invitation from an event organized solely for the benefit of one political party should be declined.

WORLD BANK ON FINANCIAL CRISIS

18. (SBU) The World Bank Country Manager for Kazakhstan, Sergei Shatalov, then provided a short presentation on the financial crisis facing the country and the region. Kazakhstan is the regional country most integrated into international financial markets and has heavy financial-sector leveraging. It was the first regional country to experience economic shocks back in 2007. After

experiencing double-digit growth, the Kazakhstani economy became "overheated," with the initial greatest impacts in the construction and financial sector. Shatalov praised the recent management of the crisis by the Government of Kazakhstan, including the devaluation of the tenge and the financial support provided to several Kazakhstani banks. However, the fall of world oil prices will continue to seriously hamper recovery in Kazakhstan. While in the month of August 2007, Kazakhstan received \$5 billion in revenue from its oil and gas sector, those revenues will only amount to \$1 billion in February 2009.

¶9. (SBU) The meeting ended after three hours with an agreement to meet again in late May. The UNODC will organize and lead this next meeting which will include a thematic discussion on drug trafficking and control.

¶10. (SBU) COMMENT: In addition to coordination at the project and activity level, there are benefits to more general meetings on broader, strategic issues, as well as facilitating agreement on sensitive topics (such as working with political parties). There are challenges to achieving benefits from donor coordination meetings in Kazakhstan, including the division of donors between the two main cities of the country. However, USAID will seek to use such meetings to facilitate meaningful discussions on concrete issues that will promote the most effective implementation of donor assistance in Kazakhstan. END COMMENT.

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